

# FDIC State Profile

Summer 2004

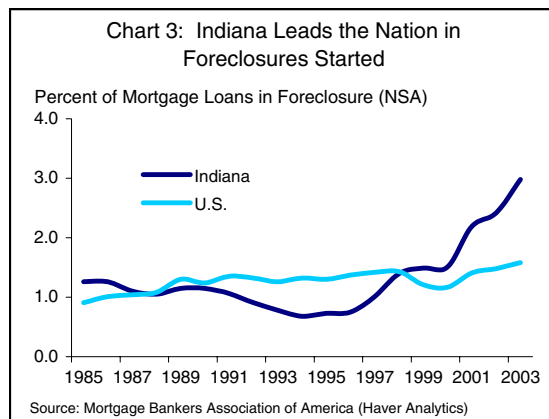
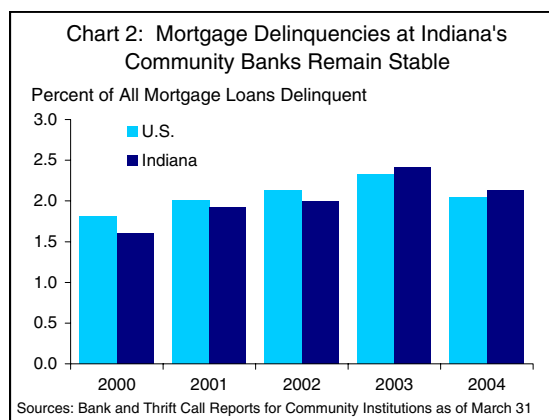
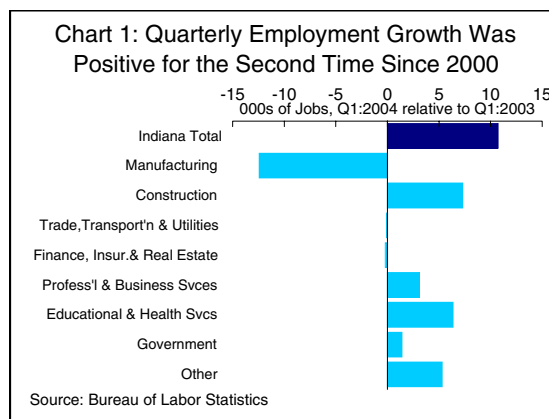
## Indiana

The economy of Indiana is slowly recovering, but pockets of weakness remain.

- An increase in the labor force outpaced modest employment growth resulting in a slight rise in Indiana's unemployment rate to 5.2 percent in the first quarter of 2004.
- Employment in the first quarter of 2004 was higher than the same quarter a year earlier, only the second quarter of growth since late 2000. Industry performance was mixed, with manufacturing showing the most decline and construction showing the largest increase (See Chart 1).
- Manufacturing job growth remained negative for the fifteenth consecutive quarter, although the rate of job loss slowed. Indiana's manufacturing employment has been contracting since mid-2000, but has fallen less rapidly than the nation since early 2002.
- Improving economic conditions abroad and the dollar's relative weakness should aid Indiana's manufacturing sector, as approximately 27 percent of Indiana's manufacturing workforce is employed in export-related activity.<sup>1</sup> For the year ending March 31, 2003, Indiana exports increased more than 13 percent, exceeding the national average of 4.3 percent.

### Slow job growth has strained Indiana households.

- Slow personal income growth, coupled with an increase in new construction and slower home price appreciation, may be contributing to the state's high personal bankruptcy rate, the highest in the Chicago region.<sup>2</sup>
- Among Indiana households, 1-4 family mortgage delinquencies, as reported by the **Mortgage Bankers Association (MBA)**, increased to their highest level since the early 1980s. MBA's data show the gap between Indiana and the U.S. also widened. However, Indiana community banks<sup>3</sup> posted steady delinquency rates, which



<sup>1</sup>STATS Indiana—an information service of the Indiana Business Research Center at Indiana University's Kelley School of Business.

<sup>2</sup>The Chicago Region consists of Illinois, Indiana, Kentucky, Michigan, Ohio, and Wisconsin.

<sup>3</sup>Community banks are insured institutions with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks.

## State Profile

are in-line with national levels (See Chart 2). The data suggest that the rising delinquencies reported by MBA are held by large Indiana banks, out-of-state institutions, or non-bank lenders.

- In 2003, Indiana had 3 percent of its mortgages starting the foreclosure process (See Chart 3). This level exceeds the national average of 1.6 percent, but is consistent with the trend in charge-offs by Indiana's insured institutions.
- Home equity charge-offs increased in the first quarter of 2004 over the prior year and remain high compared to the Chicago Region.

### Community bank earnings declined, as large banks<sup>4</sup> posted a sharp increase despite tighter margins.

- Community bank earnings declined in the three months ending March 31, 2004, compared to the year-earlier period, led by a drop in noninterest income and lower security gains (See Table 1). Lower provision expenses helped offset the declining net interest margin given lower across-the-board delinquency rates.
- Large banks posted a 46 basis point increase in return on assets from the quarter earlier to 2.62 percent (annualized) aided by a large jump in noninterest income associated with increased servicing fees.
- The gap in noninterest income continued to widen between community and large banks (See Chart 4). Noninterest income as a percent of average assets increased to 4.36 percent for large banks in the first quarter of 2004, while community banks posted a decline to 0.78 percent in the same period.

### Community bank asset quality improves for most loan categories.

- All major loan categories posted modest declines in delinquencies from first quarter 2003 to first quarter 2004 (See Chart 5).
- As a result of the financial strains on Indiana households described earlier, past-due rates for home equity loans increased to 1.41 percent in the first quarter at community banks, nearly double the rate of the Chicago Region.
- Charge-offs declined for every loan category for the state, with commercial and industrial loans showing the most improvement. Community and large bank results were similar, with the exception of home equity lines that have charge-offs almost four times as high at the large banks.

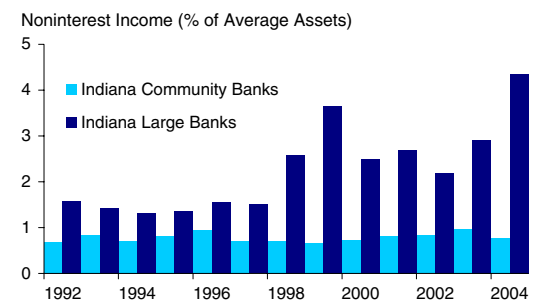
- Capital levels hit record highs at Indiana's insured institutions. As of March 31, 2004, aggregate Core Capital and Total Risk Based Capital ratios were 9.0 percent and 13.27 percent, respectively.
- Lower than normal dividend payments during the first quarter of 2004 aided the increase in capital.

**Table 1: Earnings Performance Drops at Indiana Community Banks and Thrifts**

Income statement contribution (as a percentage of average assets)			
	3 months ended March 31		Basis Point Change
	2003	2004	
Net Interest Income	3.36	3.29	-0.07
Noninterest Income	1.11	0.78	-0.33
Noninterest Expense	-2.68	-2.70	-0.02
Provision Expense	-0.25	-0.16	0.09
Security Gains & Losses	0.21	0.06	-0.15
Income Taxes	-0.56	-0.38	0.18
Net Income (ROA)	1.18	0.89	-0.29

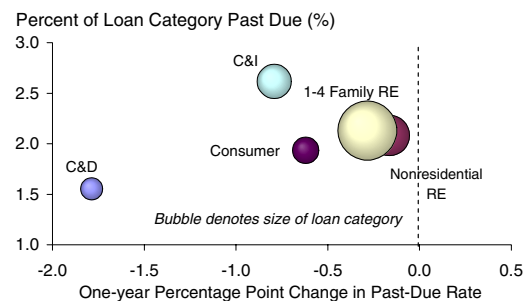
Source: Aggregate Bank and Thrift Call Reports for Community Institutions

**Chart 4: Large Banks Have Seen Strong Increases in Noninterest Income**



Source: Bank and Thrift Call Reports as of March 31, 2004

**Chart 5: Past-Due Rates are Lower Across Most Lending Categories**



Source: Aggregate Bank and Thrift Call Reports for Community Institutions

<sup>4</sup>Large banks are insured institutions with more than \$1 billion in assets, excluding new (less than three years old) and specialty banks.

## Indiana at a Glance

<b>General Information</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Institutions (#)	204	209	214	218	225
Total Assets (in thousands)	112,521,984	129,645,568	123,234,107	103,505,181	78,028,013
New Institutions (# < 3 years)	4	7	9	9	8
New Institutions (# < 9 years)	16	18	19	17	14
<b>Capital</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Tier 1 Leverage (median)	9.54	9.49	9.30	9.39	9.41
<b>Asset Quality</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Past-Due and Nonaccrual (median %)	2.00%	2.51%	2.25%	2.02%	1.71%
Past-Due and Nonaccrual >= 5%	13	23	22	16	12
ALLL/Total Loans (median %)	1.15%	1.19%	1.14%	1.11%	1.11%
ALLL/Noncurrent Loans (median multiple)	1.40	1.27	1.30	1.65	2.00
Net Loan Losses/Loans (aggregate)	0.22%	0.34%	0.52%	0.33%	0.24%
<b>Earnings</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Unprofitable Institutions (#)	10	10	10	11	14
Percent Unprofitable	4.90%	4.78%	4.67%	5.05%	6.22%
Return on Assets (median %)	0.80	0.98	0.98	0.89	0.92
25th Percentile	0.55	0.63	0.64	0.59	0.63
Net Interest Margin (median %)	3.65%	3.79%	3.93%	3.84%	3.95%
Yield on Earning Assets (median)	5.58%	6.08%	6.83%	8.03%	7.85%
Cost of Funding Earning Assets (median)	1.80%	2.25%	2.92%	4.31%	3.95%
Provisions to Avg. Assets (median)	0.10%	0.14%	0.12%	0.11%	0.10%
Noninterest Income to Avg. Assets (median)	0.66%	0.71%	0.64%	0.60%	0.54%
Overhead to Avg. Assets (median)	2.72%	2.72%	2.68%	2.67%	2.68%
<b>Liquidity/Sensitivity</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
Loans to Deposits (median %)	87.24%	84.42%	86.65%	89.21%	86.29%
Loans to Assets (median %)	68.77%	68.26%	68.46%	71.33%	69.16%
Brokered Deposits (# of Institutions)	53	47	40	35	30
Bro. Deps./Assets (median for above inst.)	3.93%	2.78%	2.24%	2.96%	1.58%
Noncore Funding to Assets (median)	22.16%	21.50%	20.71%	21.23%	18.80%
Core Funding to Assets (median)	65.64%	66.91%	68.39%	67.03%	69.16%
<b>Bank Class</b>	<b>Mar-04</b>	<b>Mar-03</b>	<b>Mar-02</b>	<b>Mar-01</b>	<b>Mar-00</b>
State Nonmember	85	93	94	97	99
National	33	28	32	31	33
State Member	28	29	28	25	25
S&L	15	15	15	16	16
Savings Bank	36	37	38	43	46
Stock and Mutual SB	7	7	7	6	6
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	99	21,756,153	48.53%	19.34%	
Indianapolis IN	24	51,123,820	11.76%	45.43%	
Gary IN PMSA	15	7,610,755	7.35%	6.76%	
Ft Wayne IN	13	4,039,436	6.37%	3.59%	
Louisville KY-IN	12	2,645,887	5.88%	2.35%	
Evansville-Henderson IN-KY	10	12,543,397	4.90%	11.15%	
Terre Haute IN	6	2,033,844	2.94%	1.81%	
Cincinnati OH-KY-IN PMSA	5	656,330	2.45%	0.58%	
South Bend IN	4	3,983,602	1.96%	3.54%	
Lafayette IN	4	1,777,601	1.96%	1.58%	
Elkhart-Goshen IN	4	384,908	1.96%	0.34%	
Kokomo IN	3	1,521,390	1.47%	1.35%	
Bloomington IN	3	877,953	1.47%	0.78%	